

VZCZCXRO8522
RR RUEHLN RUEHSK RUEHVK RUEHYG
DE RUEHDBU #0064/01 0160812
ZNR UUUUU ZZH
R 160812Z JAN 09
FM AMEMBASSY DUSHANBE
TO RUEHC/SECSTATE WASHDC 1346
INFO RUCPDOG/USDOC WASHDC
RUCPCIM/CIMS NTDB WASHINGTON DC
RUCNCIS/CIS COLLECTIVE
RUEHIL/AMEMBASSY ISLAMABAD 0285
RUEHBUL/AMEMBASSY KABUL 0394
RUEHBJ/AMEMBASSY BEIJING 0256
RUEAIIA/CIA WASHDC 0276
RUCPDOG/DEPARTMENT OF COMMERCE WASHINGTON DC 0111
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNS/NSC WASHINGTON DC

UNCLAS SECTION 01 OF 10 DUSHANBE 000064

SENSITIVE
SIPDIS

DEPARTMENT FOR EB/IFD/OIA, SCA/CEN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ETRD](#) [ELAB](#) [KTDB](#) [OPIC](#) [PGOV](#) [USTR](#) [TI](#)

SUBJECT: 2009 INVESTMENT CLIMATE STATEMENT -- TAJIKISTAN

Ref: 08 State 123907

11. Tajikistan presents selected opportunities for savvy investors who are willing to put significant research and effort into market development. Tajikistan, which lags behind most of its neighbors economically, remains not only the poorest of the former Soviet republics but one of the poorest countries in the world. The Tajik Government relies largely on foreign state-led investment and loans from international financial institutions for major infrastructure projects. The Government has shown interest in attracting broader foreign investment but seems unwilling or uncertain how to implement much needed economic reforms, including the incorporation of the country's considerable gray economy, streamlining the business registration process, rationalizing the country's tax codes, and dealing with Tajikistan's endemic corruption. Even where the legal structure is favorable to attracting investment, the actual practice of the authorities discourages investors. Until Tajikistan addresses these and other impediments to investment, it will not attract or support significant growth in foreign direct investment.

Openness to Foreign Investment

12. Although the Government of Tajikistan is hungry for foreign investments, private investment from abroad has been minimal. The principal investors in recent years have been governments with geopolitical interests in the area, especially Russia, China, and Iran. Those three countries were responsible for \$317 million in investments in between January and October 2008. Foreign direct investment from other sources totaled \$145 million during the same period.

13. President Rahmon has made numerous public and private statements calling for increased foreign investment, particularly in the hydropower sector. However, his administration has yet to implement the key reforms and regulations necessary to create an attractive business climate. Tajikistan's authorities focus their efforts on courting state-led investments from the country's perceived geopolitical friends rather than making conditions favorable to private investors from the West, the EU, or other countries. The Tajik Government burdens the private sector with unnecessary costs and creates substantial uncertainty and risk through non-transparent practices and unjustified barriers to competition.

14. Major opportunities for investment exist in the hydropower, food processing, construction, textile, and consumer goods sectors, as well as natural resource extraction.

A new Investment Law was signed in May 2007.

¶5. According to the law, foreign investments can be made by:

- Owning a share in existing companies, either jointly with other Tajik companies or Tajik citizens;
- Creating fully foreign-owned companies under the laws of Tajikistan;
- Acquiring assets, including shares and other securities;
- Acquiring the right for use of land and other mineral resources, as well as exercising other property rights either independently or shared with other Tajik companies and citizens of Tajikistan;
- Concluding agreements with legal entities and citizens of Tajikistan providing for other forms of foreign investment activity.

¶6. The judicial system recognizes sanctity of contracts in principal; however contract enforcement is poor, due in part to generally inadequate legal awareness and the court system's lack of independence. While Tajikistan is party to a number of arbitration agreements and conventions, it does not have its own internationally recognized arbitration system. The courts do not always respect or uphold international arbitration rulings.

¶7. The Tajik Government's Economic Development Strategy for 2005-2015 emphasizes economic and industrial growth. The Strategy has no discriminatory effects on foreign-owned investors. According to the Civil Code (Article 1) there is no legal discrimination against foreign companies and entities. Practically all of Tajikistan's international agreements have a provision for most favored nation status.

DUSHANBE 00000064 002 OF 010

¶8. Foreign investors can acquire up to 50-year land-use rights, although all land belongs to the state. There are no legal limitations on foreign ownership or control of other property.

¶9. Tajikistan's Committee on Investments and State Property, which was created in December 2006 with the aim of assisting investors, has so far done little to fulfill its mission. Plans to create a "one-stop shop" for business registration as well as a website for foreign investors seeking information on opportunities in Tajikistan have not gotten off the ground yet.

¶10. There are no established criteria for screening investment proposals. Instead of working with a delegated investment promotion agency, a potential investor has to go through a lengthy screening process by all (potentially) concerned government agencies. In practice, a proposed statement of foreign investments forwarded to the Government of Tajikistan is circulated among the relevant government offices and ministries with instruction to review and express a formal no-objection statement. If an office objects to the proposed investment activity statement it forwards an official note to the attention of the Government. In principle, screening includes a background check on the company and its representatives as well as identification of a financial source to comply with anti money-laundering regulations.

¶11. The government has embarked on an on-again, off-again process of privatizing state-owned companies. Privatization of small and medium enterprises is mostly complete. Because the privatization process began during the civil war (1992-1997), few international investors showed much interest. Privatization of state property, particularly larger concerns, still continues; although there are no limitations on foreign participation, in many circumstances non-transparent decisions are made that favor investors with connections to the existing power structure. Some of the largest enterprises, belonging to Tajikistan's transportation, infrastructure and electricity distribution and maintenance sectors, are still government-owned but are slated for restructuring.

¶12. There is no legally-sanctioned discrimination against foreign investors at the time of the initial investment or after the investment is made. Current investment law and tax code provide for a number of incentives, including a waiver on taxation on initial

investment and VAT-free importation of industrial equipment. Companies may have a difficult time actually realizing these benefits, however, due to poor implementation of taxation regulations and/or corrupt tax authorities. In practice the onus of proving that an investment qualifies for the benefits is on the investor, and Tajik authorities are often skeptical. In addition, President Rahmon pushes his government to increase tax revenue by unfairly taxing profitable companies. Legally, companies with foreign investments are treated the same as domestic companies in obtaining licenses, approvals and procurements. They may find, however, that Tajik authorities demand higher official and unofficial payments from them.

¶13. There are no laws or regulations specifically authorizing private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation, or control. There are no other practices by private firms to restrict foreign investment, participation in, or control of domestic enterprises.

¶14. Although the Tajik economy began growing rapidly at 8-10% per annum in 2000, economic indicators remain below the benchmarks of 1991, when Tajikistan gained its independence. The government has increased revenue collection for its social expenditures, but investments in health and education remain extremely low. In addition, as a result of non-transparent administration and corruption in tax agencies, the tax burden is placed on private sector companies that have a greater degree of compliance with regulations, resulting in distorted competition. According to some sources, even well-meaning companies are forced to breach some tax legislation, since internal contradictions and draconian rules make it impossible to abide by all existing rules.

¶15. Partly as a result of the global financial crisis, there has been some nervousness among depositors, and bank deposits (legal entities and personal) decreased by 27% from December 2007 to November 2008 (from \$676 million to \$494 million). The informal

DUSHANBE 00000064 003 OF 010

economy is still quite substantial; according to some estimates, it may be as high as \$2 billion, over one-third the size of official GDP. The global financial crisis that began in late 2008 may continue to have a chilling effect on Tajikistan's nascent banking sector.

Conversion and Transfer Policies

¶16. Tajikistan does not actively restrict conversion or transfer of funds, although the National Bank has been preparing a package of new regulations on this topic for three years. However, underdeveloped banking infrastructure, with strict government controls and limited capital, presents obstacles for investors in finding local sources of financing. Although legal, it is often difficult in practice to conduct large currency transactions, due to the limited amount of foreign currency available in the domestic financial market. Investors are free to import currency.

¶17. The minimum regulatory capital for commercial banks is \$5 million. All banking institutions (11 commercial banks and one branch of Iranian Tিজorat bank) meet this requirement.

Expropriation and Compensation

¶18. The Law on Foreign Investments details the types of actions that can be taken with regard to expropriation of property. There have been no known cases where foreign commercial entities have had their property seized, but there have been several recent cases of potential or actual state expropriation of other privately-owned property under dubious circumstances. In one case, that of a foreign-owned church, the rationale appears to be political. In another case involving the nationalization of a privately owned warehouse for storing natural gas, the reasons may have been more economic. While the Law states that investors are to be reimbursed for expropriated property, actual compensation has been minimal in the cases noted above. The sectors most likely to face

expropriation are monopolies where the state controls almost all of the market.

Dispute Settlement

¶19. In official pronouncements, the Tajik government recognizes the value of the rule of law; in practice, however, it has not demonstrated a clear understanding of its importance to investors. The international community, including the United States, has encouraged Tajikistan to improve its legal system, with mixed results. Many well-written laws have been passed, but implementation and consistent interpretation lag behind. Few people, especially small business owners, are aware of their rights and responsibilities. Further compounding the problem is a weak judiciary that is ill equipped to defend the interests of investors.

¶20. Despite this, foreign investors have found some relief in disputes involving Tajik entities. In 2007, a trade dispute involving a U.S. company and a state-owned enterprise was resolved by the Tajik government paying off the full amount of the claim. A Norwegian company successfully settled a suit in foreign arbitration. So far, though, such cases have been very few.

¶21. Tajikistan does have well-written commercial and bankruptcy laws. The country's contract law is modeled on European law. These laws are regulated under the country's civil code; however, they are not always enforced in the court system.

¶22. Tajikistan is just starting to develop an Institute of International Arbitration. It has signed bilateral agreements with several countries on arbitration and investment disputes, but these agreements are not always enforced or recognized. Tajikistan does not have a bilateral agreement with the United States.

¶23. In 1993 Tajikistan became a member of the International Association on Investment Guarantees as well as the International Center for the Settlement of Investment Disputes (Washington Convention). Tajikistan is not a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Performance Requirements/Incentives

DUSHANBE 00000064 004 OF 010

¶24. Current legislation provides the same tax and customs incentives to local and foreign investors. In practice, however, companies with close connections to the government get preferential treatment. The government does not formally impose performance requirements as a condition for establishing, maintaining, or expanding investment. While there is no requirement to "buy locally," it is encouraged.

¶25. The government does not impose geographic restrictions or conditions, but the topography and poor infrastructure of the country pose their own de facto restrictions. Roads within Dushanbe and Khujand are poor even by regional standards, and roads outside of major population centers are generally unpaved and poorly maintained. A few major routes, such as that between Dushanbe and Khujand, are being renovated with foreign financing. Weather also impacts travel, making overland travel to some parts of the country (e.g., the Gorno-Badakhshan Autonomous Oblast) impossible for some of the year. Electric power production is well short of demand, especially in the winter. For three to six months of the year, most parts of the country outside of Dushanbe are limited to a few hours of power each day. Overland import/export requires patience and ingenuity as customs agents at borders and internal checkpoints frequently operate on the principle that they constitute an assumed cost of doing business.

Right to Private Ownership and Establishment

¶26. The government wants to encourage business development but faces major obstacles, including its own practices. There is a major gulf

between legislation that is ostensibly business-friendly and actual practices that are business-stifling. In principle, private entities may establish and own businesses and engage in almost all forms of remunerative activity. Foreign entities may establish, acquire, and dispose of interests in business enterprises. In practice, however, the old Soviet mentality still prevails. The average government inspector believes that activities are not permitted unless they are expressly allowed (or unless he is remunerated for adopting a more flexible interpretation), and since laws are neither published nor uniformly applied and interpreted, businesspeople often find Tajikistan frustrating.

¶27. There are other unofficial barriers to success. Informal networks of clan-based, interrelated suppliers often exist, forcing would-be investors to "buy in" to the system, hindering competition and sometimes constraining new investors from fully participating.

¶28. The government faces a daunting task to improve the operating environment. Any restructuring must be implemented at each sub-governmental level for each area of reform. While the Tajik government has begun reviewing these weaknesses and is making some improvements, the business environment remains difficult.

Protection of Property Rights

¶29. Undeveloped legal avenues for dispute resolution create a weak environment for property rights protection in Tajikistan.

¶30. As noted above, all land belongs to the state, and there are significant restrictions on using property titles as collateral. A revised Land Code submitted to the government last year providing for the sale of land-use rights, an equivalent to buying and selling land, was changed at the last minute by an unknown official, leaving the issue confused. Efforts are underway by donors to clarify the language. The government also adopted mortgage legislation in December 2007 which may allow parties to use property as collateral.

In practice land use continues as before, however, because no legal mechanisms and procedures were developed to implement these new laws.

¶31. When secured interests in property do exist, enforcement remains an issue. Investors should be aware that establishing title may be a more involved process than in western countries, since ownership is often unclear. A system to record, protect and facilitate acquisition and disposition of property exists but would benefit from improvement. Most banks have temporarily halted much of their lending as a result of the financial crisis; in the past mortgage rates have been very high. Finally, the legal system is not adept at quickly and efficiently settling disputes.

DUSHANBE 00000064 005 OF 010

¶32. Tajikistan affords few protections for patents, copyrights, trademarks and other intellectual property. However, with United States government assistance, legislation addressing intellectual property rights is being revised. In addition, Tajikistan has taken significant recent steps to protect intellectual property, including: an amendment to the Law on Intellectual Property to protect copyright owners from Internet theft; a new office dealing with intellectual property violations in the Ministry of Interior; and a parliamentary agreement to join the Rome Convention for the protection of intellectual property.

Transparency of the Regulatory System

¶33. Cronyism, nepotism and corruption all work to create a business environment that favors those with connections to the government. Tajikistan's regulatory system lacks transparency and poses a serious impediment to businesses' operational abilities. Regulators and officials often apply laws arbitrarily, and are frequently unable or unwilling to make decisions without a supervisor's permission, leading to lengthy delays. Transparent executive documents -- i.e., Presidential decrees, laws, Government orders, instructions, ministerial memos, and regulations -- are frequently inaccessible, leaving businesses and investors in the dark about the

rules by which they should be abiding. Furthermore, each Ministry has its own set of normative acts which are not published and may be contradictory to law and normative acts of other ministries.

¶34. Tajikistan's tax code provides for 18 different types of taxes and numerous ways to calculate them. In addition to the complexity of the regulations, economic development is further undermined by inconsistent application that impedes development of small and medium enterprises. The tax code came into effect January 2005, and is compliant with WTO standards. Last year the Government of Tajikistan declared a two-year moratorium on tax inspections, which government officials had routinely used to extort bribes from business owners.

¶35. An inspections law signed in 2006 and promoted extensively by the International Finance Corporation has begun to reduce the practice of other government agencies shaking down enterprises for money, but reports of such incidents are still widespread. Tajikistan is also working towards international accounting norms; however, these have yet to be implemented.

¶36. Tajikstandart is the government agency responsible for certifying goods and services, calibrating and accrediting testing laboratories, and supervising compliance with state standards. Tajikstandart does not publish its fees for licenses and certificates, nor does it publish the requirements necessary to run a business. As a result, businesspeople are vulnerable to individual tax inspectors' interpretations of the requirements and the prices for them. Suggestions have been mooted to create "one-stop shops" for certifying businesses in various categories, but so far no concrete steps have been taken.

¶37. Structural problems aside, the Tajik government needs to convey its goals and procedures to the inspectors and other government employees who interact with businesses daily. As long as government employees who interact with businesses daily. As long as government inspectors continue to treat their positions as a license for rent-seeking -- and as long as the government tolerates such corruption -- Tajikistan will remain a difficult place for investors looking for clear rules and practices.

Efficient Capital Markets and Portfolio Investment

¶38. Tajikistan's nascent banking sector faces numerous challenges: insufficient capital, limited banking services, mistrust as a result of banking system crisis in early 1990s, and, more recently, fallout from the global financial crisis. The banking structure in Tajikistan is two-tiered: the National Bank of Tajikistan performs central bank functions, while commercial banks represent the second level. The national currency, the somoni, was introduced in 1999.

¶39. The total value of regulatory capital of all commercial banks in Tajikistan as of October 2008 is \$271 million (735,016,513 somoni), representing a 57% increase since 2007.

¶40. Estimated net worth of the top three commercial banks is as

DUSHANBE 00000064 006 OF 010

follows:

- Orion Bank: 203 million somoni (\$59.7 million)
- TojikSodirot Bank: 131 million somoni (\$38.5 million)
- AgroInvest Bank: 111 million somoni (\$32.6 million)

¶41. There are 12 second tier banks in Tajikistan. (The sole first-tier bank is the National Bank of Tajikistan.) Five banks are public, open joint stock companies, while five are closed joint stock companies. The remaining two banks, Tijorat Bank of Iran and Amonat Bank, are state-owned. Three of the banks are foreign, including Tijorat, Kazcommercebank of Kazakhstan and First Micro Finance Bank of Tajikistan, partly owned by the Aga Khan Fund for Economic Development and the International Finance Corporation.

¶42. Tajikistan's ratio of migrant labor remittances to GDP, standing at 50%, is the highest in the world. Over the course of 2008, as many as a million Tajiks working abroad, primarily in Russia, sent

\$2.69 billion back to Tajikistan. Although an ever greater share of remittances flow through the banking system, banks have limited success luring consumers to deposit their funds into savings accounts that could be used for economic investment. Intractable agricultural debts over \$500 million hurt the overall confidence in the banking sector. Last year's scandal in which the National Bank misreported loans it had underwritten to cotton investors has not helped, although the International Monetary Fund reports that the Bank, which has been meeting its scheduled repayments to the IMF, has dramatically improved its accounting and cooperation. An increase in deposits over 2007 may be offset by withdrawals in the face of the financial crisis (see above, under the first heading). Falling labor remittances may also hurt banks, which rely significantly on commissions from money transfers.

¶43. Prior to the global financial crisis that indirectly hit Tajik banks in November 2008, with inflation running about 14%, local commercial banks were issuing 12-month loans worth more than \$100,000 at 24% APR, prohibitively expensive for most local customers to develop a new business. Interest on smaller, shorter term loans reached 36% APR. In addition, banking officials were known to ask for kickbacks in amounts up to 10% of the loan they approved. Due to such high interest rates and low capital, few investors secure business or personal loans through banks; there are currently reports that many banks have stopped lending entirely due to fears of default as a result of the financial crisis. Checking accounts do exist but are not widely used due to strict requirements on cash withdrawal procedures.

¶44. The private sector has access to micro-credit, commercial credit, and factoring instruments. Some banks provide trade financing services as well. In an effort to reduce barriers to competition, the Government of Tajikistan has paved the way for non-bank financial organizations and commercial microfinance. However, there is no credit bureau, and much work is needed in strengthening creditor and shareholder rights. Performance on micro-credit loans exceeds 90%; business loans also perform well.

¶45. There is no securities market in Tajikistan; although formally Q45. There is no securities market in Tajikistan; although formally there is a department at the Ministry of Finance responsible for develop this market, it has little capacity to do so. No regulatory system exists to encourage and to facilitate portfolio investment.

¶46. There are no known cross-shareholding or stable shareholder arrangements. Hostile takeovers are rare, although there are no written protections against them. State authorities are known to selectively apply laws and regulations to take over or completely shut down companies.

¶47. The stock market in Tajikistan was founded in 1994. Since then, it has foundered due to a lack of new financial instruments. In 2000, the government established a Central Share Registry (CSR) within the Ministry of Finance. The Registry records, monitors, and facilitates share purchase and sale for more than 400 stock companies. The government issues treasury bills to cover budget deficits, using local banks to cover the loans.

Political Violence

¶48. Political violence in Tajikistan is minimal. The security situation has stabilized significantly since the Civil War ended in

DUSHANBE 00000064 007 OF 010

¶1997. All factions signed a peace agreement, and the government incorporated members of the opposition into a multi-party system -- although President Rahmon has since steadily removed opposition figures to consolidate his power. The Tajik government has worked to minimize the impact of political discord on foreign investors. With the civil war in recent memory, the people of Tajikistan are keen to maintain peace, a factor sometimes adduced to explain the population's acceptance of the government's more egregious corruption.

¶49. Tajikistan sometimes serves as a transit country for extremist terrorist groups. Terrorists may use Tajikistan's uncontrolled

mountainous regions as a safe haven, but evidence suggests they are no longer politically active in Tajikistan. Narcotics trafficking from Afghanistan is significant.

Corruption

¶50. As in previous years, the 2008 Transparency International Corruption Perceptions Index ranked Tajikistan as very corrupt, placing it at 151st place on a list of 180 countries surveyed. Anemic anti-corruption efforts from the Tajik government have proven ineffective -- indeed, some anti-corruption units are ironically known to be particularly corrupt. Extremely low official salaries do not help the situation, since they force many official employees to look for other means to make ends meet. Buying a government position is the norm, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotism or other favors for clan-members, extended family, or superiors are commonplace.

¶51. As noted throughout this report, endemic corruption stifles business by local and international investors. Officials at any number of agencies expect payoffs for opening and running a business. Although a signatory to the OECD Convention on Combating Bribery and to the United Nations Convention against Corruption, corrupt practices are deeply embedded in every aspect of commercial dealings, and calculating the actual cost is difficult. In 2007, President Rahmon created a new Agency to Fight Corruption and Economic Crimes, reporting directly to the Presidential Administration, to monitor fiscal activity of individuals, banks, and corporations. This agency has still done little to fight corruption within government ranks, focusing instead on individual and corporate malfeasance.

Bilateral Investment Agreements and Double Tax Treaties

¶52. Agreements on avoiding double taxation exist between Tajikistan and Russia, Belarus, Ukraine, Azerbaijan, Turkey, and some other countries, but not between Tajikistan and the United States. Tajikistan is a member of the Eurasec trade organization, which provides loose regulation of trade among, Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan.

OPIC and Other Investment Insurance Programs

¶53. Tajikistan is open to insurance and financing programs of the Overseas Private Investments Corporation (OPIC). Thus far, OPIC's involvement in investments in Tajikistan has been limited to a beverage bottling project. Assuming the financial crisis does not cause lasting damage to the nascent financial sector, Tajikistan's relative macroeconomic stability and a growing economy provide for a number of opportunities for OPIC insurance and financing.

¶54. The Export-Import Bank of the U.S. considers projects on a case-by-case basis, although Tajikistan generally does not qualify for its programs. Opportunities exist in infrastructure projects, aircraft export financing, agricultural machinery, and food processing.

Labor

¶55. Due to a crumbling and corrupt education system, Tajikistan's labor force is becoming increasingly less educated and trained, and is ill-equipped to provide Western standards of customer service and business. International businesses and NGOs lament the small pool of qualified office staff for their organizations. Some have brought in Chinese or Indian laborers for construction projects.

DUSHANBE 00000064 008 OF 010

Corruption in secondary schools and universities means degrees do not reflect real professional training or competency. Although education is compulsory, many students must work in order to support their families. Unemployment among younger Tajiks exceeds 60% in some rural areas.

¶56. The official unemployment rate in Tajikistan is under two percent, but the actual rate may be as high as 40% nationwide, with some areas reaching 60%. These high rates are offset by the approximately one million labor migrants who work overseas, mainly in Russia, although the financial crisis may force many of these workers to return home. The average salary in Tajikistan has risen to \$78.20 per month, but wages have not kept pace with inflation. According to the World Bank, 53% of the population lives below the poverty line and an additional 17% are considered "desperately poor." Labor emigration leads to shortages in some skills. The \$2.69 billion in official migrant remittances pays for a high percentage of Tajikistan's growing appetite for imports, particularly foreign vehicles, construction materials, and food and consumer goods.

¶57. Tajikistan's high birth rate means that 50% of the population is less than 25 years old; if the trend continues, unemployment will increase.

¶58. Nepotism and corruption play a large role in the labor market. Many of the higher prestige or more lucrative jobs require a "buy-in," as well as continuing payments to supervisors, leading the job-holder to look for ways to pay back that sum by demand bribes or engaging in other corrupt activity.

¶59. The labor market favors employers. Although technically, the majority of workers are unionized, most are not aware of their rights and few unions have the will or know-how to effectively advocate for workers' rights. Unions are tightly controlled by the government.

¶60. Tajikistan is a party to 44 international labor conventions. In June 2005, Tajikistan signed the Worst Forms of Child Labor Convention, dedicated to eliminating child labor and protecting children and young people. Despite this there are frequent reports that children and university students are forced to pick cotton, providing one of the country's main sources of income, and that local officials are complicit in this practice. The International Labor Organization notes that Tajikistan has not submitted reports required by the Convention.

Foreign Trade Zones/Free Ports

¶61. Tajikistan is a landlocked country whose neighbors demonstrate varying abilities and interest in trade. Most of Tajikistan's rail and road links flow through Uzbekistan, which, as a result of increasingly sour political relations between Dushanbe and Tashkent, has made transit of goods through Uzbek territory difficult. For example, in October 2007 Uzbekistan decreed that traders must pay the full value of excise goods passing through its territory as a customs deposit -- a fee that is then difficult to get back. There are no commercial flights between Uzbekistan and Tajikistan. In order to overcome its dependence on its neighbor, Tajikistan has sought to open alternative transit routes to the north, via Kyrgyzstan and Kazakhstan; the south, via Afghanistan, Pakistan, and QKyrgyzstan and Kazakhstan; the south, via Afghanistan, Pakistan, and Iran; and the east, via China.

¶62. The opening of the Chinese border at Kulma, in Murghab District, has helped facilitate increased trade with China, although the border is open only half the days of each month, and is closed completely for about half the year due to extreme cold weather. Passing over the some of the roughest and least developed territory in Asia, even when it is open, this route remains difficult and time-consuming, and without major infrastructural improvements, it will have limited impact on trade. Several international financial institutions, along with the governments of China and Iran, are implementing projects to improve the road system. The Central Asia Regional Economic Cooperation Program has created a road linkages plan for all the Central Asian countries with funding from the Asian Development Bank (ADB). Projects underway include the renovation of the road north to Khujand with Chinese funding, Iranian-financed construction of the Anzob Tunnel which should allow for year-round transit on the route, and ADB-financed improvements on the road

leading northeast from Dushanbe, through Kyrgyzstan, to China. There is also strong interest to improve links to the south. The United States Government completed construction of a \$39 million bridge linking Tajikistan and Afghanistan, connected to a new road financed by the Japanese, which will increase trade and help develop the economy in the south.

¶63. Although the Law on Free Trade Zones was enacted in 2004, only in 2008 has the government made some progress on implementation, with the establishment -- at least on paper -- of the Soghd Free Economic Zone in the northern city of Khujand and the Pyanj Free Economic Zone near the U.S.-funded bridge across the Pyanj River on Tajik-Afghan border. Two additional zones are under consideration. The zones are designed to attract foreign capital, investments, and technology, and to develop Tajikistan's economic potential by setting favorable conditions for foreign investors, including lower or no taxes, lower land leasing rates, lower duties on imports and exports, and special visa rules.

¶64. WTO accession negotiations were launched in 2004 after intensive preparatory work conducted by the Tajik government with assistance from the U.S. and other donors. The last negotiations on Tajikistan's accession were conducted in Geneva in October 2006. In January 2008, a group of WTO experts met with President Rahmon in Dushanbe, who confirmed his intention to lead the country into the WTO. Some Tajik experts believe that it will take at least five more years before that goal is realized.

Foreign Direct Investment Statistics

¶65. According to data from the State Statistical Committee, total foreign direct investment (FDI) in the first nine months of 2008 was \$462 million. Of this, \$282.9 million came from the former Soviet states (mostly Russia, with investments of \$240.8 million), while \$179 million came from other countries. In 2007, total FDI was \$388.4 million. Between 1997 and 2008, total FDI amounted to \$1.421 billion.

¶66. In the first nine months of 2008, the FDI to GDP ratio equaled 9%, down from 10% in 2007.

¶67. According to Tajikistan's official state statistics, the largest foreign direct investors for the first nine months in 2008 were:

Russia -- \$240.8 million
Cyprus -- \$70.2 million
United States -- \$17.8 million
Great Britain -- \$3.7 million
Switzerland -- \$2.6 million
Kazakhstan -- \$31.5 million
China -- \$60.0 million
UAE -- \$1.9 million

¶68. Foreign direct investment by sector over that period was as follows:

Energy: \$219 million
Communications: \$49.4 million
Banking: \$59.6 million
Gold mining: \$22.4 million
Health: \$1.1 million
Oil and Gas: \$4.4 million
Agriculture: \$0.3 million

¶69. (The government's definition of investment for the purposes of these statistics is not always clear. Several major foreign direct investors from Cyprus and the United States, for example, are Tajik-held companies registered offshore.)

¶70. Major Russian investment in the Sangtuda-1 hydroelectric project is continuing during the first part of 2009, while Iran is developing the Sangtuda-2 project.

¶71. In terms of Tajik foreign investment abroad, Tajikistan has Q71. In terms of Tajik foreign investment abroad, Tajikistan has signed an agreement with Iran to modernize the Iranian port in Bandar-Abbas in order to accelerate shipments of aluminum from and

alumina to the Talco plant in Tursunzade, Tajikistan. Due to the world financial crisis little has been done so far, however.

DUSHANBE 00000064 010 OF 010

JACOBSON